

Access to Microfinance & Improved Implementation of Policy Reform (AMIR Program)

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**Evaluation of Bank Needs with Regard to Monetary
Policy and Updates on Developments in Monetary Policy**

FINAL REPORT

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This report was prepared by Thomas Davis, Economic Consultant, and was performed under the supervision of Farhat Y. Farhat, Policy Component Director of the AMIR Program and in collaboration with Chemonics International Inc., as prime contractor to the United States Agency for International Development for the AMIR Program

This report summarizes my activities while serving as an economic consultant to the Central Bank of Jordan during the period February 23 - April 4, 1999. The report is submitted to AMIR in accordance with an agreement to provide such a report at the conclusion of my visitation to the central bank.

Tasks of Consultant

As stipulated in the ~~A~~Scope of Work~~@~~ attachment to the consultant contract, my tasks included but were not limited to the following:

1. Conduct an assessment of the needs of the CBJ with regard to monetary policy,
2. Prepare training materials on monetary policy,
3. Deliver two three -week training seminars to two groups of experts at the CBJ.

Upon my arrival at the CBJ, Governor Fariz asked me to provide advice on how best the CBJ could influence short-term interest rates in Jordan. Dr. Ifram, Head of the Research Department, asked me to provide advice on how best to restructure the research department and to identify other needs of the department.

Upon discussion with Dr. Ifram, it was mutually agreed that my first task should be to conduct an assessment of the monetary policy needs of the Bank. Given the scope and complicated nature of that task, it also was agreed to defer any training sessions for the staff on monetary issues toward the end of my visit. I advised Mr. Farhat and others at AMIR of this sequence of priorities and there was general agreement.

Activities

While at the Bank, Dr. Ifram provided me an office in the research department and all required informational materials and office assistance. To facilitate my understanding of the Bank's monetary policy needs and the activities of the research department, meetings were arranged by Dr. Ifram with divisional heads and others in the research department and with persons in the Bank's Open Market Operations Department. In addition, I visited at length with Deputy Governor Dr. Ahmad Mustafa.

During the first two weeks of my visitation, I submitted a number of memoranda to Dr. Ifram about my observations on the activities and organization of the research department. The memoranda also contained suggestions intended to enhance the capabilities of the research department to contribute to the formulation of Bank monetary policy. Among those suggestions was a reorganization plan to consolidate the number of divisions within the research department in order to improve management's span of control and delegation of authority. It also was suggested that staff capabilities to do economic research needed to be improved by adding Ph.D. economists and by training existing staff members in a number of areas.

In addition, it was suggested that the statistics division be provided technical assistance and training to develop an automated economic data base for research and Bank wide use.

I also submitted a memorandum to Dr. Ifram containing information on how research departments in the

U.S. Federal Reserve System contribute to the formulation of monetary policy. The report also summarized how monetary policy is formulated and conducted in the Federal Reserve. This information, it was felt, could serve as a useful guide for the Central Bank of Jordan.

During the next two weeks, I prepared and submitted a report on An Assessment of the Bank's Monetary Policy Needs.[@] The report contained the following sections: (1) introduction (2) the framework of monetary policy in Jordan, (3) the tools and mechanism of monetary policy, (4) a summary of recent economic developments in Jordan, (5) the central bank's monetary policy needs, and (5) concluding observations. In addition, and per Governor Fariz's request, suggestions were included in the report on are how best to influence short-term interest rates in Jordan.

The conclusions of the report were discussed at a meeting at the Bank on March 22, which was attended by Governor Fariz, other Bank officials, and representatives from AMIR. While the contents of the report are to be kept confidential within the Bank due to their potential sensitivity, the general conclusions are provided below:

Central Bank Monetary Policy Needs

AMonetary policy actions of the Central Bank of Jordan in recent years have been sound, prudent, and consistent with the legislated objectives of the Bank. Moreover, a number of initiatives have been taken by the Bank to improve the implementation of policy actions. The needs set forth below are suggested to enhance the capabilities of the Bank so it may continue to pursue a responsible monetary policy in the period ahead.

- 1. In the conduct of monetary policy, the Bank needs to further develop its tools for open market operations.*
- 2. In the formulation of monetary policy, the Bank needs to further develop its ability to access and analyze economic information used by policy makers.*
- 3. In the formulation of monetary policy, the Bank needs to further its understanding of the current framework of monetary policy.*
- 4. Given the many economic uncertainties facing Jordan, the Bank should consider a long-run Strategic Plan for monetary policy and related areas of the Bank.*

The Central Bank of Jordan recognizes the challenging monetary policy needs posed by the rapidly changing economic environment and is in the process of addressing those needs in a responsible manner.[@]

Following the meeting at the Bank on March 22, I met privately with Governor Fariz and his two Deputy Governors to discuss more fully the report on An Assessment of the Bank's Monetary Policy Needs.[@] It was suggested that another meeting might be held for further discussions. For that purpose, I prepared and submitted a memorandum offering additional suggestions and observations on how the research department might be able to contribute in a more meaningful way to monetary policy deliberations. These suggestions mainly dealt with changing procedures for the

Open Market Operations Committee meetings so as to enable economic analyses from the research department to be presented and discussed.

During the remainder of my time at the Bank, I conducted daily seminars on central bank monetary policy for members of the staff in the research department and selected members from the Open Market Operations Department and the Bank Supervision Department.¹

Recommendations

As requested by Stephan Wade, Program Director of AMIR, the following recommendations are put forward in light of the assessed monetary policy needs of the Bank and as possible areas that could be supported by AMIR and US AID.

1. To further develop access to information, the Bank needs to improve its economic data base. The data base should be made more fully automated, made consistent with the Oracle operating system used by the Department of Statistics(DOS), and made available on a Network basis throughout the Bank so that policy makers and analysts could access data for research purposes without compromising the original

¹The title of the series of seminars was "Current Monetary Policy Issues", which dealt in sequence with, inter. alia., central bank monetary policy tools, policy transmission process, exchange rate regimes, and econometric models. Daily seminars were given during the period March 21-31, 1999. Individuals attending from the Research Department were Messrs. Zagloul, Mousa, Kandah, Al-Sumadi, Al-Zubi, Al-Zeinati, Al-Sharkas, and Jarar; from the Bank Supervision Department Mr. Karasneh; and from the Open Market Operations Mr. Al-Jafari.

data. The Computer Department has been asked to begin such a project, but I suspect not much as yet been done. Technical assistance would need to come from an Oracle representative, I believe, who would be most familiar with the system. Technical assistance also is needed in the research department's statistics division to implement and maintain a new data base

2. In support of this data base project, the Bank needs more computer (PC) facilities for its research staff so they can more readily access the data base for research purposes. Additional PCs also are needed by researchers and analysts to access information and other economic data bases available on the Internet due to the time-delayed informational process now in place. The Bank's Computer Department presumably has the capability and responsibility to study the computerization needs of the Bank and to recommend the computer hardware that is necessary. Software recommendations would come from staff and advisors in the Research Department.
3. To further develop the Bank's abilities to analyze data and information, financial assistance is needed to send staff from the Department of Research to attend short courses on macroeconomics and monetary policy held by official institutions and universities outside of Jordan, preferably in the U.S.²
4. To further develop the Bank's abilities to analyze data and information, technical assistance and training are needed in the following areas: macroeconomics, monetary economics, and econometrics.

Macro economist

Objective: To improve the capacity of the research staff at the central bank to conduct research and analyze developments in the Jordanian economy in a manner useful for monetary policy purposes. A stay of 2 months would be appropriate.

Tasks: Help develop an empirical framework of the Jordanian economy to be included in an econometric model employed for monetary policy purposes. Major spending sectors of the economy and their principal economic determinants would need to be identified and empirically tested.

Conduct daily workshops for staff in conjunction with the empirical development of the specified components of the econometric model so as to assist and train the staff in proper theoretical and empirical research techniques.

²These training courses are offered by the IMF and Harvard, Kiel, and Oxford universities. I learned of these courses from Dr. Ifram, who has indicated he will provide detailed information on the courses directly to AMIR.

Qualifications:

Ph.D. in Economics

Minimum 10 years experience as macro economist

Minimum 5 years experience in macro economic modeling of developing countries

Training and communication skills.

Monetary economist

Objective: To improve the capacity of the research staff at the central bank to conduct research and analyze developments in the Jordanian economy in a manner useful for monetary policy purposes. A stay of 2 months would be appropriate.

Tasks: Help develop an empirical framework of the Jordanian monetary sector to be included in an econometric model employed for monetary policy purposes. Economic variables in the monetary policy transmission process would need identified and relationships between these variables would need to be empirically tested.

Conduct daily workshops for staff in conjunction with the empirical development of the specified components of the econometric model so as to assist and train the staff in proper theoretical and empirical techniques.

Qualifications:

Ph.D. in Economics

Minimum 10 years experience as monetary economist

Minimum 5 years experience in monetary modeling and advising developing countries.

Training and communication skills

Econometrician

Objective: To improve the capacity of the research staff at the central bank to conduct and analyze developments in the Jordanian economy in a manner useful for monetary policy purposes. A stay of 2-3 months would be appropriate.

Tasks: Help develop an econometric model of the Jordanian economy to be employed for monetary policy purposes. Empirical consistency and appropriateness of the model for policy purposes would need to be tested and evaluated.

Conduct daily workshops for staff in conjunction with the empirical analysis so as to assist and train the staff in proper theoretical and empirical techniques.

Qualifications:

Ph.D. in Economics

Minimum 10 years experience as econometrician

Minimum 5 years experience in econometric modeling and advising developing countries.

Training and communication skills

5. To further develop the Bank's tools for open market operations, financial assistance may be needed to

send persons from the Open Market Operations Department to major central banks for short observation/training assignments. These central banks would include those in the United States, England, Germany, and perhaps the new European Central Bank.

Conclusion

My visit to the Bank was concluded on April 4, 1999 and I departed Amman that evening.

